Kuala Lumpur Kepong (KLK MK)

Operational Stability To Underpin FY26 Results

BUY (Maintained)	
Share Price	RM19.60
Target Price	RM22.25
Upside	13.5%

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Highlights

- We expect KLK's upstream plantations business to continue anchoring FY26's earnings, backed by a healthy FFB production growth trajectory while operating costs are expected to remain stable yoy.
- Its downstream operations are still expected to recover meaningfully off FY25's low base and drive FY26's core net profit growth of 41% yoy.
- Maintain BUY on KLK with an unchanged target price of RM22.25.

Analysis

- **1QFY26 results recap.** To recap, 1QFY26 core net profit rose 107% qoq and 67% yoy to RM382m, deemed in line at 27% and 29% of our and consensus respective full-year forecasts. This was largely driven by higher fresh fruit bunch (FFB) output of 6.5% yoy – and the downstream segment having recovered off a loss-making position during last year.
- **Plantation earnings contribution to remain solid.** For FY26, Kuala Lumpur Kepong (KLK) is targeting a higher FFB production growth of around mid- to high single-digits – as compared with FY25's growth of 2.6% - which would likely continue to anchor the group's earnings base this year. Based on its recent production trajectory, we believe management's growth target appears well within reach, as the group registered a 5MFY26 FFB output growth of 6.3% yoy. Separately, the segment's operating cost base is expected to remain relatively stable for FY26, with fertiliser input costs largely locked in for the year.
- **A recovery year for downstream operations.** We expect its downstream segment to meaningfully recover from FY25's pre-tax losses of RM174m, with the group having right-sized some of its operations while also incurring up-front overhead costs for new capacity additions elsewhere. Subsequent to this, we expect its processing margins to return to positive territory, supported by incremental contribution by its newly-commissioned downstream complex in East Kalimantan, Indonesia. Meanwhile, we gather that its oleochemicals operations in Europe have begun to stabilise after undergoing some restructuring last year. As for the sudden surge in fuel prices, we surmise that its European operations would remain relatively insulated as their utility costs have been locked in for more than six months' forward.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	22,274	25,020	33,041	34,054	34,716
EBITDA	2,864	3,099	3,421	3,877	4,064
Operating profit	1,817	2,060	2,363	2,773	2,915
Net profit (rep./act.)	591	818	1,414	1,691	1,743
Net profit (adj.)	899	1,004	1,413	1,690	1,742
EPS (sen)	83.3	93	131	156	161
PE (x)	24.1	20.6	14.6	12.2	11.9
P/B (x)	1.5	1.4	2.1	2.0	1.9
EV/EBITDA (x)	1.4	2.0	3.4	4.1	4.2
Dividend yield (%)	1.4	2.0	3.4	4.1	4.2
Net margin (%)	3.2	3.3	4.3	5.0	5.0
Net debt/(cash) to equity (%)	50.2	65	100	96	87
Interest cover (x)	8.0	7.4	7.7	7.9	7.2
ROE (%)	5.8	4.2	9.8	13.3	13.7
Consensus net profit	-	-	1,310	1,376	1,376
UOBKH/Consensus (x)	-	-	1.079	1.228	1.266

Source: KLK, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Consumer Staples
Bloomberg ticker:	KLK MK
Shares issued (m):	1,096.4
Market cap (RMm):	22,673.3
Market cap (US$m):	5,345.7
3-mth avg daily t'over (US$m):	5.6

Price Performance (%)

52-week high/low				RM22.66/RM18.34
1mth	3mth	6mth	1yr	YTD
3.2	0.1	(0.6)	(1.1)	(6.4)

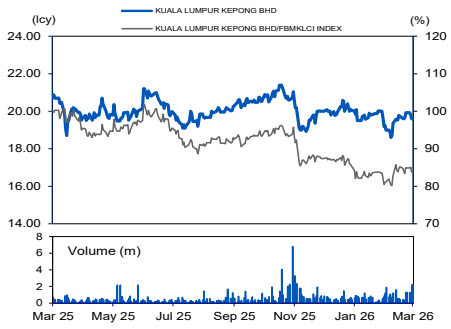
Major Shareholders %

Batu Kawan Bhd	47.9%

Balance Sheet Metrics %

FY26 NAV/Share (RM)	13.6
FY26 Net Debt/Share (RM)	6.84

Price Chart



Source: Bloomberg

Company Description

Plantation company also engaged in downstream manufacturing and property development.

- **2QFY26 outlook.** We anticipate that 2QFY26 results are expected to come in sequentially softer given the low production season for its estates; the group's FFB output reported for Jan 26 and Feb 26 saw mom declines of 6% and 17% respectively – although this was still up 8% and 4% yoy, which we continue to regard positively. For the downstream segment, earnings contribution may remain volatile amid stiff industry competition as well as fluctuations in palm oil tax measures between Malaysia and Indonesia, but this is nonetheless expected to remain in positive territory relative to losses made during its previous quarters. On a separate note, headline profit for the quarter may be affected by continuing share of losses attributed to its associate Synthomer amid ongoing business restructuring initiatives.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM22.25.** Our valuation is pegged to 17x FY26F PE (-1SD to the average five-year mean of 23x). We continue to like KLK as a laggard sector play backed by its estates' positive production growth profile, while expecting its downstream segment to begin stabilising in FY26 relative to pre-tax losses of RM174m registered in FY25.

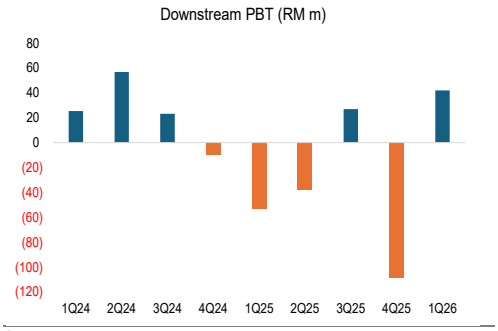
Earnings Revision/Risk

- **Earnings estimates.** We make no changes to our FY26-27 estimates while introducing our FY28 estimates at the same time. FY26 core profit is forecasted to rise 41% yoy, driven by an anticipated rebound in downstream profitability from stiff losses incurred last year, while upstream contribution is expected to be maintained on the back of sustained positive production output despite marginally lower ASPs expected for the year ahead.

Share Price Catalyst

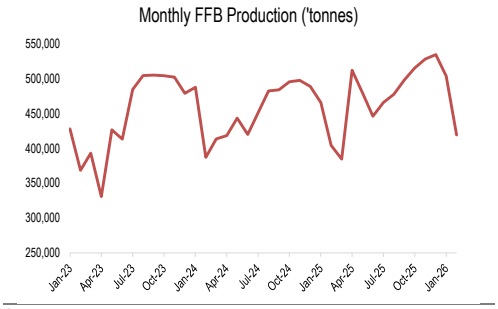
- Better-than-expected CPO prices and production growth.
- Marked recovery in downstream operating margins.
- Potential M&A activities.

Downstream Segment Profitability Trend



Source: KLK

Monthly FFB Production Growth YoY



Source: KLK

ESG Roadmap

Environmental

- All Malaysian estates are MSPO certified, while Indonesian estates are 80% ISPO certified.
- Committed to no deforestation, no peat land and no exploitation.

Social

- Smallholders' development and best practices training programme.

Governance

- Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

Profit & Loss

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Net turnover	25,020	33,041	34,054	34,716
EBITDA	3,099	3,421	3,877	4,064
Deprec. & amort.	1,039	1,057	1,104	1,149
EBIT	2,060	2,363	2,773	2,915
Total other non-operating income	168	170	171	170
Associate contributions	-108	100	100	100
Net interest income/(expense)	-420	-446	-491	-565
Pre-tax profit	1,514	2,189	2,553	2,621
Tax	-540	-525	-613	-629
Minorities	-156	-249	-249	-249
Net profit	818	1,414	1,691	1,743
Net profit (adj.)	1,004	1,413	1,690	1,742

Balance Sheet

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Fixed assets	12,959	13,561	14,145	14,682
Other LT assets	21,105	21,501	22,123	22,704
Cash/ST investment	2,492	3,676	5,391	7,211
Other current assets	4,969	4,969	4,969	4,969
Total assets	31,738	35,901	38,411	41,350
ST debt	5,246	4,946	4,646	4,346
Other current liabilities	1,940	1,977	2,017	2,067
LT debt	6,449	8,471	10,487	12,504
Other LT liabilities	976	5,631	5,631	5,631
Shareholders' equity	14,265	9,727	10,153	11,024
Minority interest	1,243	1,492	1,741	1,990
Total liabilities & equity	31,738	35,901	38,411	41,350

Cash Flow

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Operating	-306	2,566	2,484	2,615
Pre-tax profit	1,514	2,189	2,553	2,621
Tax	-540	-525	-613	-629
Deprec. & amort.	1039	1057	1104	1149
Working capital changes	-2252	306	-100	-65
Other operating cashflows	-67	-461	-461	-461
Investing	-1,641	-1,641	-1,641	-1,641
Capex (maintenance)	-1641	-1641	-1641	-1641
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	1308	1010	871	845
Dividend payments	-409	-707	-846	-871
Issue of shares	0	1	2	2
Proceeds from borrowings	2017	2017	2017	2017
Loan repayment	-300	-300	-300	-300
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	-639	1,934	1,714	1,819
Beginning cash & cash equivalent	2,381	1,742	3,676	5,391
Changes due to forex impact	0	1	1	1
Ending cash & cash equivalent	1,742	3,676	5,391	7,211

Key Metrics

Year to 30 Sep (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	12.4	10.4	11.4	11.7
Pre-tax margin	6.1	6.6	7.5	7.5
Net margin	3.3	4.3	5.0	5.0
ROA	4.0	4.5	4.2	4.3
ROE	12.9	11.9	10.8	11.3
Growth				
Turnover	12.2	9.4	4.3	0.3
EBITDA	21.1	6.4	5.4	3.4
Pre-tax profit	24.2	17.7	9.3	4.3
Net profit	17.8	33.7	9.3	4.3
Net profit (adj.)	17.8	37.7	9.3	4.3
EPS	17.8	37.7	9.3	4.3
Leverage				
Debt to total capital	75.4	119.6	127.2	129.5
Debt to equity	82.0	137.9	149.1	152.8
Net debt/(cash) to equity	64.5	100.1	96.0	87.4
Interest cover (x)	7.4	7.7	7.9	7.2

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